

**It's the economy stupid:** This was the famous reminder posted in all of then Governor Bill Clinton's campaign offices as he ran for President against then incumbent George H.W. Bush. It was there to keep the campaign from being distracted by other issues and to focus on the fact that the economy was bad and people were hurting. It worked.

But the economy is much worse now. And as President Obama fiddles away in the White House with a government take-over of health care, the economy is far from being out of the woods.

Yes, the economy will almost certainly be declared to be technically out of recession in this quarter. Things have stopped getting worse. Monthly job losses have declined. But we should not be sanguine. There are 4 major risks on the horizon which could lead us into a "double dip" or "W-shaped" recession next year. Many economists, including some of President Obama's advisors, have told me they think that the risk of slipping back into recession next year is at least 50%.

What would cause that to happen? See the following:

1. First of all, this "recovery" is weak and jobless. There is a still lot of deleveraging going on. Many of you probably would not notice this recovery if you didn't read about it in the paper. Americans are still losing jobs and it will be some time before we start to gain jobs again.

2. We have a looming commercial mortgage loan crisis which is similar in effect and magnitude to the home mortgage crisis that sent the world economy over the brink last fall. Trillions of dollars of loans on office buildings, shopping centers, hotels, and the like are coming due in the next 18 months where there is no equity and no place to refinance them. This Commercial Mortgage Backed Securities (CMBS) crisis is in its very early stages. But as it builds, it will follow a similar path to the home mortgage crisis. Rents and occupancies are down, so building values are down. The owner can't pay the mortgage and the building isn't worth half of the mortgage on it. So, the owner gives it back to the bank, the bank distress sells the building into the market which lowers the value of other buildings around, and the crisis feeds on itself. This will cause the failure of more banks (largely medium sized regional banks) and wipe out more wealth, capital, and jobs.

3. The home mortgage crisis is not over. Now we are seeing failures of loans that were

good loans when made, but because of job losses and persistent unemployment, people can no longer make the payments. Just as the subprime foreclosures start to slow down, these A and B mortgage failures are accelerating.

4. The federal government will borrow about **\$1.5 trillion** more in the next 12 months to finance current record setting deficits. This borrowing sucks

**\$1.5 trillion**

out of the economy that could otherwise be invested productively to create jobs and economic growth.

It is not a certainty that we will slip back into recession, but it is a distinct possibility. And if we don't reenter a technical recession, we will likely have no or very little growth in the economy for years to come as these problems work their way through.

We should be taking action now to try and forestall this. While there is widespread acknowledgment in DC of these risks, the administration and the Speaker are obsessed with socializing medicine, increasing taxes to create a fund for global warming, and other distractions that will make the economy worse, not better.

What should we be doing? Several things in my view. Broadly, we should first be removing every legal, tax, and regulatory burden that keep financial institutions and building owners from restructuring loans or attracting new capital that would forestall more foreclosures. Everything from bank reserve requirements to restrictions on foreign investment to tax penalties, should be temporarily revised to keep as many of the buildings as possible from going through traditional foreclosure. Secondly, we should be scrapping the worthless so-called 'stimulus package' to reduce borrowing and debt. Thirdly, we should reallocate a portion of that money into real stimulus like a \$15,000 refundable tax credit for buying a home to stimulate that market and a capital gains tax holiday to encourage investment and risk taking.

Bill Clinton was right in 1992 and the same is true today. It is the economy stupid. Other important issues are easier to deal with when there is economic growth, jobs being created, and more taxes being paid because more people are earning money. You can be assured that I and others will be focused on this in Washington and we hope to get some focus on it through the current paralysis caused by the health care debate.

**Health Care Update:** Democrats in the House and the Senate, with the urging of the President, are bound and determined to pass a full-blown socialized medicine bill with the government "option." No Republican in either House will vote for such a bill, but they don't need any Republican votes if they can get nearly all Democrats. In Massachusetts, the legislature just reversed a bill passed when Mitt Romney was Governor of that state that kept him from appointing replacement Senators. Now that a Democrat is governor, they completely changed the law without any pretense of justification in equity or fairness. This was done solely to get the 60th Democrat vote in the Senate (replacing Ted Kennedy), so they can pass socialized medicine without a single Republican anywhere. It seems that there is nothing they won't do to

take 1/6 of the American economy and put it under government control and destroy quality health care in this country. Speaker Pelosi has made it clear that her bill will include a government option at Medicare rates, which will put many doctors and hospitals out of business. As I suggested above, this entire town continues to be in paralysis over this issue as Obama has staked his Presidency on it.

Right now, they apparently don't have enough votes in the House. But, as you read this, Democratic House members will be offered multiple campaign visits by the President to their district, fundraisers by the President, and all kinds of other things if they will just vote against the will of their constituents and the American people for government-run health care. The power of the Presidency is immense. I fear that they just might get it done. We must all continue to do everything we can to stop it.

I remain respectfully,

A handwritten signature in black ink, appearing to read "John Campbell". The signature is fluid and cursive, with the first name "John" and last name "Campbell" clearly distinguishable.

Congressman John Campbell  
Member of Congress